



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 20, 2009

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF ETTIE LEE YOUTH AND FAMILY SERVICES – A  
FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE  
CONTRACTOR**

Attached is our report on the fiscal operations of Ettie Lee Youth and Family Services, also known as Ettie Lee Homes, Incorporated (Ettie Lee, or Agency), from October 1, 2006 through September 30, 2007. The Department of Children and Family Services (DCFS) and the Probation Department (Probation) contract with Ettie Lee to serve as a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. Ettie Lee also operates nine group homes (GHs). The Agency's administrative office is located in the Fifth Supervisorial District.

From October 1, 2006 through September 30, 2007, Ettie Lee FFA had 97 children placed by Los Angeles County in 28 certified foster homes. DCFS paid Ettie Lee a monthly rate, for each child, established by the California Department of Social Services' (CDSS). CDSS requires FFAs to pay their foster parents at least 40% of the funds they receive. Ettie Lee received \$914,983 in FFA funds from DCFS, and paid \$382,419 (42%) of the funds directly to foster parents.

Ettie Lee's nine GHs have a resident capacity between six and twelve children. DCFS paid Ettie Lee \$5,613 per child per month, or a total of \$4,805,166 in GH foster care funds from October 1, 2006 through September 30, 2007.

### **Scope**

The purpose of our review was to determine whether Ettie Lee complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated Ettie Lee's expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County fiscal guidelines governing FFA and GH foster care funds.

### **Summary of Findings**

We identified \$62,735 in unallowable costs consisting mainly of interest expense and \$18,218 in unsupported/inadequately supported costs. In addition, Ettie Lee also needs to strengthen its internal controls over payroll/personnel records and reporting payments to independent contractors to the Internal Revenue Service. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and collect any disallowed amounts. In addition, DCFS needs to ensure that Ettie Lee's management takes action to address the recommendations in this report and monitor to ensure the actions result in permanent changes.

### **Review of Report**

We discussed our report with Ettie Lee's management on May 21, 2009. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank Ettie Lee's management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Please call if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS

Attachment

c: William T Fujioka, Chief Executive Officer  
Patricia S. Ploehn, Director, Department of Children and Family Services  
Ted Myers, Chief Deputy Director, Department of Children and Family Services  
Susan Kerr, Senior Deputy Director, Department of Children and Family Services  
Robert B. Taylor, Chief Probation Officer  
Clayton Downing, Chief Executive Officer, Ettie Lee Youth and Family Services  
Board of Directors, Ettie Lee Youth and Family Services  
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services  
Public Information Office  
Audit Committee  
Commission for Children and Families

**Ettie Lee Youth and Family Services**  
**Fiscal Review**

**REVIEW OF EXPENDITURES/REVENUES**

We identified \$62,735 in unallowable costs and \$18,218 in unsupported/inadequately supported costs. Details of these expenditures are discussed below.

**Applicable Regulations and Guidelines**

Ettie Lee is required to operate its FFA and GH's in accordance with certain federal, State and County regulations and guidelines.

- FFA and GH Contracts, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

**Unallowable Expenditures**

We identified \$62,735 in unallowable expenditures:

- \$42,934 in interest expense on loans from Union Bank of California. Circular A-122 Section 23 states that the interest on loans is not allowable.
- \$13,447; \$11,000 in settlement costs and \$2,447 in attorney fees, resulting from a claim of serious and willful employment misconduct. Ettie Lee was advised by their insurer that their Worker's Compensation policy did not cover any of these costs. The Agency was not contractually required to maintain insurance coverage for serious and willful misconduct. The Agency had identified the \$11,000 as unallowable costs on their general ledger.
- \$6,120 in non-sufficient funds and overdraft fees from Union Bank of California. Circular A-122 Section 16 states that fines and penalties are unallowable.
- \$234 in late fees, fines and penalties from Verizon, Probation Department and the Orange County Transportation Authority.

**Unsupported/Inadequately Supported Expenditures**

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, contracts or other documentation, and that unsupported expenditures shall be disallowed upon audit. Photocopied invoices or receipts, any internally generated documents (i.e., vouchers, request for check forms, requisitions, cancelled checks, etc.), and account statements do not constitute supporting documentation for purchases.

We identified \$18,218 in expenditures that were either not supported, or were not adequately supported.

- \$15,522 in inadequately supported auto allowances paid to five employees.
- \$2,696 in inadequately supported gasoline expenses.

Ettie Lee provided a payroll register report that identified the auto allowances paid to the five employees and receipts for the gasoline expenses. However, the Agency did not maintain documentation, such as vehicle mileage logs, establishing that the auto allowances and gasoline expenses were related to the County's FFA and GH programs. As a result, we cannot determine whether these expenses were appropriately used for business activity.

**Recommendations**

1. **DCFS management resolve \$80,953 (\$62,735 + \$18,218) in questioned costs and collect any disallowed amounts.**

**Ettie Lee management:**

2. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**
3. **Maintain adequate supporting documentation for all expenditures, including vehicle logs, original itemized invoices and receipts.**

**CONTRACT COMPLIANCE AND INTERNAL CONTROLS**

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Ettie Lee's management takes action to address the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

**Personnel / Payroll Controls**

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and all timecards/time reports must be signed by the employee and supervisor to certify the accuracy of the reported time.

We reviewed a sample of 16 timecards processed over the twelve-month audit period and noted five (31%) timecards were not signed by the employees or the employees' supervisors.

**Recommendation**

4. **Ettie Lee management ensure the timecards are signed by the employee and supervisor to certify the accuracy of the reported time.**

**Payments to Independent Contractors**

A-C Handbook Section A.2.6 requires the Agency to comply with federal and State requirements for reporting payments made to independent contractors. We reviewed five independent contractors hired by the Agency and noted that payments to one contractor were not reported to the IRS.

**Recommendation**

5. **Ettie Lee management ensure that all payments to independent contractors are reported to the federal and State taxing agencies.**